

PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

AUGUST 18 - 24, 2001

Summary

The peso closed August 24 (Friday) largely unchanged week-on-week. However, bid rates for longer-term T-bills inched up on announcements that the central bank was considering raising reserve requirements further. With little impetus to sustain the previous week's gains, the stock market headed back down on listless volumes. The latest (June) import data showed the Philippines' merchandise import bill up year-on-year in US\$ terms for a third month in a row (suggesting that inventories are running low). Meanwhile, the latest figures on vehicle sales showed that the number of units sold during the first seven months of the year slumped 13.6% from 2000's comparable level. Meanwhile, the national government's cumulative fiscal deficit as of July was well within the targeted ceiling because of determined efforts to offset revenue shortfalls with expenditure cuts. End Summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). Our next update will be submitted on or about September 7. We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

Contents

Forex Report
Credit Market Report
Stock Market Report
June Imports Down Year-on-Year, Trade Balance Narrows
Seven-Month Vehicle Sales Slump 13.6% Year-on-Year
Fiscal Update: Underspending Keeps Deficit in Check

FOREX REPORT

The week opened with downward pressure on the peso, which traders attributed mainly to commercial demand and an anticipated "correction" following the marked rebound of the previous week. The peso's appreciation from over P53/US\$ less than two weeks ago may have also prompted some hedging by foreign exchange users to meet future dollar requirements, eventually contributing to downward pressure on the local currency. By mid-week, however, the peso had firmed up within a tight trading band around the P51/US\$ mark. Currency traders cited some easing of foreign currency demand, improved foreign exchange liquidity, and an overall weakening of the US\$ (reflecting less bullish sentiments over a rapid U.S. economic rebound).

Traders added that statements by senior officials of the Bangko Sentral ng Pilipinas (BSP, the central bank) that the monetary authority was mulling further liquidity reserve requirement increases (after two increases totaling 4 percentage points since late July) may have helped encourage unloading of foreign exchange in the spot market. On Friday, however, the BSP announced that the Monetary Board (the BSP's highest policymaking body) had decided to hold off another hike in reserve requirements pending clearer indications of the effects of earlier adjustments. The peso ended the week at P51.05/US\$ on August 24, up 0.2% from August 24's closing level of P51.14. The third quarter import season has not yet ended but currency traders generally expect the peso to continue trading in a tight band sideways of P51/US\$ in the short-term, helped in part by a wider differential between peso- and foreign-denominated assets.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
JUL 16	53.503	53.710	50.4
17	53.896	53.950	49.5
18	53.928	53.700	168.5
19	53.316	53.200	122.3

20	53.210	53.150	154.8
JUL 23	53.387	53.400	110.6
24	53.552	53.550	36.2
25	53.587	53.600	96.7
26	53.538	53.420	101.6
27	53.389	53.450	76.0
JUL 30	53.562	53.370	106.7
31	53.526	53.540	67.7
AUG 01	53.744	53.770	94.4
02	53.667	53.645	67.0
03	53.562	53.450	92.5
AUG 06	53.282	53.220	80.5
07	53.293	53.320	82.1
08	53.303	53.150	104.5
09	53.085	53.000	90.7
10	52.322	51.850	151.7
AUG 13	51.278	51.210	124.0
14	51.183	51.175	94.5
15	50.831	50.950	136.5
16	51.101	50.950	129.0
17	51.193	51.140	60.0
AUG 20	51.303	51.300	107.8
21	51.329	51.250	88.0
22	50.946	50.910	145.2
23	51.014	51.000	62.3
24	51.056	51.050	107.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Bid rates for 91-day Treasury bills softened while those for the longer-term 182- and 364-day papers moved up during the government's weekly (Monday) T-bill auction on August 20. All three issues were oversubscribed and the government's auction committee fully awarded the P4 billion worth of T-bills scheduled for sale. The 91-day paper averaged 9.59%, 6.2 basis points lower week-on-week. The 182-day bills averaged 11.659% and the 364-day

bills averaged 12.798% -- up 13.4 and 24.1 basis points, respectively.

National Treasurer Sergio Edeza noted that the higher rates for the 182- and 364-day bills reflected banks' concern over locking up funds in longer-term investments following statements from BSP officials that reserve requirements could be raised further. Reflecting limited investment alternatives, Treasurer Edeza nevertheless observed that banks/dealers remained reasonably liquid after adjusting to the Bangko Sentral ng Pilipinas's (BSP, the central bank) August 10 hike in reserve requirements. Treasury officials expect T-bill rates to move sideways during next week's auction, with some downward bias for the longer-term tenors.

The Philippine Monetary Board kept overnight borrowing and lending rates steady (at 9.0% and 11.25%, respectively) despite a 0.25% rate cut announced mid-week by the U.S. Federal Reserve Open Market Committee. BSP officials noted that inflation (which averaged 6.7% year-on-year during the January-July period) remained at the upper end of the government's targeted 6-7% range for the full year. They also cited lingering risks to the peso and potential upward pressures on oil prices with the approaching winter in Western countries.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
JUN 25	8.728	no sales	11.092
JUL 02	8.770	9.942	11.221
JUL 09	8.849	10.172	11.419
JUL 16	8.958	10.489	11.768
JUL 23	8.935	10.861	11.988
JUL 30	9.215	no sales	no sales
AUG 06	no sales	no sales	no sales
AUG 13	9.652	11.525	12.557
AUG 20	9.590	11.659	12.798

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
JUL 05	12.5638	10.00 - 13.770
JUL 12	12.5837	10.00 - 13.849
JUL 19	12.6249	10.00 - 13.958
AUG 02	12.8134	10.50 - 14.215
AUG 09	12.8318	10.50 - 14.215
AUG 16	13.0594	11.00 - 14.652
AUG 19	12.9746	11.00 - 14.590

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Stock market gains during the August 13-17 trading week were short-lived. Signals that the U.S. economy's recovery might take longer than expected and the BSP's cautious approach to domestic interest rate reductions pushed down the Philippine Stock Price Index (Phisix) back below the P1,300 mark by mid-week. Analysts see little impetus in the short-term to spur stock market prices and trading volumes from their lethargic levels. The Phisix ended the trading week at 1286.07 on August 24, down 1.5% from August 13's closing level of 1306.17.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
JUL 16	1397.61	377
17	1384.01	798
18	1382.28	325
19	1381.87	625
20	1376.36	330
JUL 23	1374.83	516

24	1369.02	441
25	1366.01	472
26	1362.58	368
27	1363.34	584
JUL 30	1350.95	323
31	1362.89	406
AUG 01	1333.71	373
02	1341.56	472
03	1328.17	338
AUG 06	1333.05	382
07	1332.03	688
08	1308.41	1,028
09	1278.40	1,059
10	1294.23	481
AUG 13	1303.65	337
14	1303.06	271
15	1325.16	398
16	1316.22	326
17	1306.17	488
AUG 20	1311.13	995
21	1306.66	342
22	1294.43	409
23	1278.14	347
24	1286.07	361

Source: Philippine Stock Exchange

JUNE IMPORTS UP YEAR-ON-YEAR, TRADE BALANCE NARROWS

According to latest figures released by the government's National Statistics Office (NSO), June 2001's merchandise import bill (US\$ terms) increased by 4.6% year-on-year. That increase marked a third consecutive month of positive year-on-year growth, following through the expansions posted in April (6.5%) and May (10%). June saw a 11.3% year-on-year expansion in import payments for capital goods (spurred mainly by telecom equipment and electrical machinery) and for intermediate/raw materials (up 0.3%), while payments for mineral fuels/petroleum and consumer goods declined by 9.6% and 1%, respectively.

Given weak global and domestic economic prospects, recent import growth strongly point to lower inventories (rather than being a barometer of improved business sentiment). With exports down 24.4% year-on-year in June (Manila 4537), the resulting trade balance was a \$31 million deficit for the month. The trade balance has been in the red since April 2001. Before then, the Philippines last recorded a balance-of-trade deficit in April 1999.

On a cumulative six-month basis, the import bill contracted by 0.5% year-on-year versus a 9.2% decline in export receipts. The cumulative trade surplus (\$733 million) narrowed sharply (i.e., by nearly 68%) from 2000's comparable five-month period (\$2.3 billion).

 PHILIPPINE FOREIGN TRADE PERFORMANCE
 (FOB Value in Million US\$)

	Exports	Imports	BOT
	-----	-----	---
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,989	2,742	247
Apr	2,668	2,528	139
May	2,931	2,437	494
Jun	3,410	2,495	915
Jan-Jun 2000	17,616	15,336	2,280
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,607	262
Apr	2,246	2,693	(447)
May	2,600	2,681	(81)
Jun	2,578	2,609	(31)
Jan-Jun 2001	15,988	15,255	733
Cumulative Year-to-Year			
Growth (%)	(9.2)	(0.5)	(67.9)

Source: National Statistics Office

SEVEN-MONTH VEHICLE SALES SLUMP BY 13.6% YEAR-ON-YEAR

According to the Chamber of Automotive Manufacturers of the Philippines (CAMPI), July 2001 vehicle sales (measured in number of units) declined by 7.1% from the corresponding 2000 level. Sales have been down since the beginning of 2001, although July's decline was an improvement over the double-digit negative growth rates posted throughout the first six months of the year. For the first time this year, sales of commercial vehicles mustered positive growth (i.e., 5.3%), which industry officials attributed to the introduction of various new models of Asian Utility Vehicles (AUVs). The especially hard-hit passenger car segment continued to languish, however, with July 2001 sales slumping 28.3% year-on-year.

Cumulative January-July vehicle sales dropped by 13.6% from the number of units sold during 2000's comparable seven-month period. Seven-month sales of passenger cars slumped by 27.7% year-on-year while automotive firms also sold 5.4% less units of commercial vehicles compared to the January-July 2000 level.

AUTOMOTIVE INDUSTRY SALES

	(No. of Units)		
	2000	2001	% Growth
	----	----	-----
July, Total	7,779	7,225	(7.1)
Passenger Cars	2,873	2,061	(28.3)
Comm'l Vehicles	4,906	5,164	5.3
Jan-July, Total	49,302	42,604	(13.6)
Passenger Cars	18,137	13,111	(27.7)
Comm'l Vehicles	31,165	29,493	(5.4)

Source: Chamber of Automotive Manufacturers of the Phil.

FISCAL UPDATE: UNDERSPENDING KEEPS DEFICIT IN CHECK

The Bureau of Internal Revenue (BIR) exceeded its July tax collection target by P1.6 billion. Together with the

Bureau of Treasury's better-than-expected income, total revenues bettered the government's goal for July by P2.9 billion. Meanwhile, the government also disbursed P5.3 billion less than it had targeted for the month (P1.6 billion of which represented savings from lower-than-programmed interest payments). As a result, the actual deficit was P8.2 billion narrower than the programmed ceiling for July.

On a cumulative seven-month basis, the national government posted a P82.6 billion fiscal deficit as of July, about P11 billion below the ceiling programmed for the period. Thus far, the national government has managed to tame its fiscal deficit mainly by reigning in expenditures. The government "underspent" by P18 billion during the first seven months of the year (P5 billion of which reflected interest savings), more than offsetting its P7 billion revenue shortfall. Revenue collections would have been farther off the mark had not much higher Treasury incomes partially offset the combined P15.1 billion shortfall in internal revenue and customs collections. Internal revenue collections -- which ended the first seven months of the year P13.3 billion below target -- have been especially problematic, reflecting both slower-than-expected economic growth and persistent tax collection problems.

Observers have lauded the Macapagal-Arroyo government's determined efforts to live within its means. However, concerns have also been raised over the sustainability of such a strategy without sacrificing longer-term economic and social development objectives. Budget and finance officials concede there is little (if any) room for further expenditure cuts. Dept. of Finance Secretary Jose Isidro "Lito" Camacho has announced that efforts in coming months will focus on improving tax collection performance through recently initiated administrative improvements (including the use of electronic metering machines for documentary stamp taxes, intensified tax audits, and compromise agreements on pending tax cases).

National Government Fiscal Performance
(Amounts in Billion Pesos)

	2001 Full Yr. Program		January - July Prog.	Actual	Diff.
	-----		-----	-----	-----
REVENUES	568.2		327.7	320.7	(7.1)
BIR	408.1		243.0	229.7	(13.3)
Customs	105.1		57.1	55.0	(2.1)
Treasury	20.0		11.0	20.2	9.2
Other Offices	35.1		16.7	15.8	(0.8)
Privatization	7.0		0.0	0.5	0.5
Fees and Charges	21.2		12.7	11.8	(1.0)
EXPENDITURES	713.2		421.3	403.3	(18.1)
Interest Payments	182.6		103.7	98.7	(5.0)
SURPLUS/(DEFICIT)	(145.0)		(93.6)	(82.6)	11.0

Source: Bureau of Treasury